

EXHIBIT 3

**Letter Agreement Regarding
Bucks Creek Hydroelectric Project
Relicensing Cost Sharing
Pursuant to
Grizzly Development and Mokelumne
Settlement Agreement (1990)**

RECITALS

WHEREAS: On March 8, 1990, Pacific Gas and Electric Company, a California corporation ("PG&E") and the City of Santa Clara, a California municipal corporation ("Santa Clara"); collectively, the "Parties," executed the Grizzly Development and Mokelumne Settlement Agreement ("GDMSA"); and

A. PG&E and Santa Clara agreed in the GDMSA (Section 12.2, Bucks Creek Relicensing) that Santa Clara would support the relicensing by PG&E of the Bucks Creek Project, FERC No. 619 (Section 12.2.1);

B. By virtue of being Joint Licensees in the FERC license for Bucks Creek Project, and desiring to continue as Joint Licensees, the Parties further agreed to share in the costs of renewing the Bucks Creek License according to a specified formula (Section 12.2.3);

C. The Parties desire to address (1) uncertainty in how to interpret the specified cost-share formula and (2) uncertainty as to how long the Parties will be Joint Licensees in the renewed Bucks Creek License, as future actions and timing of events are beyond the Parties' ability to control or predict at this time;

D. The GDMSA at one point suggests each of the Parties should consider its share of costs associated with obtaining permits or licenses as capital Costs (Section 1.1.19); and

E. At other points the GDMSA suggests such costs should be excluded from capital Costs (Section 2.7.1) and specifically from Costs of Plant and Depreciated Costs of Plant (Sections 1.1.23 and 1.1.21).

NOW THEREFORE, in consideration of the promises and mutual covenants contained in the GDMSA the Parties hereby agree as follows:

1. PG&E and Santa Clara agree to each consider its share of the costs of relicensing the Bucks Creek Project as capital Costs; allocated by PG&E according to its practices in compliance with FERC accounting principles and by Santa Clara as capital additions to the Costs of Plant;

2. PG&E and Santa Clara agree to calculate each Parties' share of relicensing costs pursuant to the formula specified in Section 12.2.3(a), using "19.8" as the "nameplate megawatt capacity of Grizzly" and "84.8" as the "total nameplate megawatt capacity of all facilities on the Bucks Creek License", and also using a joint license period/new license period ratio of 1; and

3. That 19.8/84.8, or 23.35% of each month's documented costs of relicensing incurred by PG&E shall be invoiced by PG&E to Santa Clara in the subsequent month, and similarly that 65/84.8, or 76.65% of each month's documented costs of relicensing incurred by Santa Clara shall be invoiced by Santa Clara to PG&E, or alternatively the Parties may establish a single monthly invoicing process that reflects a credit of the smaller amount against the larger amount.

4. In the event of any concerns that either party may raise with respect to invoices, the Parties will work together to resolve such concerns expeditiously; and will look to the GDMSA


(Signatures on following page)

(such as Section 5.9) for examples of appropriate mechanisms that may help the Parties achieve expedited resolution.

The Parties acknowledge and accept the terms and conditions described in this Letter Agreement as evidenced by the following signatures of their duly authorized representatives.

**CITY OF SANTA CLARA, CALIFORNIA,
a chartered California municipal corporation**

APPROVED AS TO FORM:

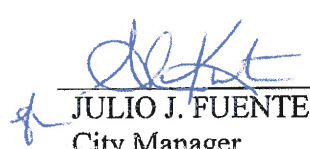


RICHARD E. NOSKY, JR.
City Attorney

ATTEST:




ROD DIRIDON, JR.
City Clerk




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City Manager
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PACIFIC GAS AND ELECTRIC COMPANY

APPROVED AS TO FORM:

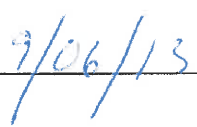


Annette Faraglia
Attorney



Randal S. Livingston
Vice President – Power Generation

Date: _____



Date: _____

